

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1450-01
Bill No.: HB 603
Subject: Health Care Professionals; Insurance - General; Insurance - Medical; Medicaid
Type: Original
Date: March 8, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(Unknown exceeding \$18,756,855)	(Unknown exceeding \$18,756,855)	(Unknown exceeding \$18,756,855)
Total Estimated Net Effect on General Revenue Fund	(Unknown exceeding \$18,756,855)	(Unknown exceeding \$18,756,855)	(Unknown exceeding \$18,756,855)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
All Other	(Could exceed \$4,197,995)	(Could exceed \$4,197,995)	(Could exceed \$4,197,995)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$4,197,995)	(Could exceed \$4,197,995)	(Could exceed \$4,197,995)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Federal	(Could exceed \$6,055,079)	(Could exceed \$6,055,079)	(Could exceed \$6,055,079)
Total Estimated Net Effect on <u>All</u> Federal Funds	(Could exceed \$6,055,079)	(Could exceed \$6,055,079)	(Could exceed \$6,055,079)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	(Up to \$1,573,911)	(Up to \$1,573,911)	(Up to \$1,573,911)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety (DPS) - Director's Office, Missouri Department of Conservation** and **Department of Insurance** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Department of Public Safety - Missouri State Highway Patrol** defer to the Missouri Department of Transportation for response regarding the potential fiscal impact of the proposal on their organization.

Officials from the **Missouri Department of Transportation (DOT)** state the proposal prohibits health insurers from discriminating against any provider who is within the coverage area of the health benefit plan and who is willing to meet the terms and conditions for participation established by the health insurer. This proposal will have no fiscal impact on the Missouri Highway Transportation Commission/DOT. The term "health insurer" is not defined, but is probably not applicable to the Highway and Patrol Medical Plan. Also, the Medical Plan does not establish the terms and conditions for participation by a provider. As a result, this proposal will have no fiscal impact on the Highway and Patrol Medical Plan.

ASSUMPTION (continued)

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state competition fuels the contract negotiations between providers and a medical plan. Typically, providers give discounts in exchange for patient volume. If every provider participates in a health plan, health insurers cannot guarantee increased patient volume to providers making it difficult to negotiate lower prices. Providers may refuse to participate if the volume is no longer guaranteed. Then prices will start to escalate. This would result in significant cost to the plans who would recoup these costs through increased premiums. Also, accepting any willing provider into a plan's network may limit a health plan's ability to select providers on the basis of efficiency and quality.

Although a little dated, several studies are still being cited by the available literature on this issue and they show a wide range of impacts. A study by the Barents Group, LLC of KPMG Peat Marwick, LLP for the Alliance for Managed Care states the impact to be about a 15 percent increase. Another study done by Atkinson and Company estimates the impact to be between 9.1 and 28.7 percent increase. In this response, HCP is taking a conservative approach on the potential impact of this legislation and using 10 percent.

In 2004, health care plans cost a total of \$376,255,440 for the state members and \$15,739,114 for the Public Entities. Currently, the state contributes approximately 77% towards the state member's premium. The total fiscal impact for the first year could be \$28,971,669 for the state portion and \$1,573,911 for the Public Entity portion, including the member's portion.

Officials from the **Department of Social Services (DOS) - Division of Medical Services (DMS)** state the proposed legislation states that a health insurer shall not discriminate against any provider who is located within the geographic coverage area of the health benefit plan and who is willing to meet the terms and conditions for participation established by the health insurer.

The DMS is affected by this proposal because it administers a managed care program which contracts with health maintenance organizations (HMOs) for the purpose of providing health care services through capitated rates. These HMOs are subject to the regulations in this proposal.

It is estimated there will be a fiscal impact to DMS because of this proposal. The proposal affects the shape of the HMO networks and also reduces the ability of the HMOs to negotiate terms. It is not possible to estimate the amount of the impact at this time. The cost will be incurred during the bidding process and the contract renewals. Capitation payments to managed care plans in FY 04 were over \$743 million. An increase of just one percent in the capitation rate will result in an additional annual cost of \$7.4 million. Therefore, the fiscal impact is unknown greater than \$100,000 annually.

FISCAL IMPACT - State Government

FY 2006
(10 Mo.)

FY 2007

FY 2008

GENERAL REVENUE FUND

Costs - Missouri Consolidated Health
 Care Plan

Increase in State share of health insurance premiums	(Could exceed \$18,718,595)	(Could exceed \$18,718,595)	(Could exceed \$18,718,595)
--	--------------------------------	--------------------------------	--------------------------------

Costs - Department of Social Services -
 Division of Medical Services

Increase in program costs	(Unknown exceeding \$38,260)	(Unknown exceeding \$38,260)	(Unknown exceeding \$38,260)
---------------------------	------------------------------------	------------------------------------	------------------------------------

**ESTIMATED NET EFFECT ON
 GENERAL REVENUE FUND**

(Unknown exceeding \$18,756,855)	(Unknown exceeding \$18,756,855)	(Unknown exceeding \$18,756,855)
--	--	--

OTHER STATE FUNDS

Costs - Missouri Consolidated Health
 Care Plan

Increase in State share of health insurance premiums	(Could exceed \$4,197,995)	(Could exceed \$4,197,995)	(Could exceed \$4,197,995)
--	-------------------------------	-------------------------------	-------------------------------

**ESTIMATED NET EFFECT ON
 OTHER STATE FUNDS**

(Could exceed \$4,197,995)	(Could exceed \$4,197,995)	(Could exceed \$4,197,995)
-------------------------------	-------------------------------	-------------------------------

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
FEDERAL FUNDS			
<u>Income - Department of Social Services - Division of Medical Services</u>			
Reimbursements for increased program payments	Unknown exceeding \$61,740	Unknown exceeding \$61,740	Unknown exceeding \$61,740
<u>Costs - Department of Social Services - Division of Medical Services</u>			
Increase in capitated program payment rates	(Unknown exceeding \$61,740)	(Unknown exceeding \$61,740)	(Unknown exceeding \$61,740)
<u>Costs - Missouri Consolidated Health Care Plan</u>			
Increase in health insurance premiums	<u>(Could exceed \$6,055,079)</u>	<u>(Could exceed \$6,055,079)</u>	<u>(Could exceed \$6,055,079)</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>(Could exceed \$6,055,079)</u>	<u>(Could exceed \$6,055,079)</u>	<u>(Could exceed \$6,055,079)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
ALL LOCAL GOVERNMENTS			
<u>Costs - All Local Governments</u>			
Increase in health insurance premiums	<u>(Up to \$1,573,911)</u>	<u>(Up to \$1,573,911)</u>	<u>(Up to \$1,573,911)</u>
ESTIMATED NET EFFECT ON ALL LOCAL GOVERNMENTS	<u>(Up to \$1,573,911)</u>	<u>(Up to \$1,573,911)</u>	<u>(Up to \$1,573,911)</u>
<u>FISCAL IMPACT - Small Business</u>			

This proposal could directly impact small business insurance premium costs.

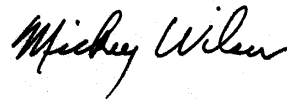
DESCRIPTION

This proposal prohibits health insurers, the Missouri Medicaid Program, and the Medicare Program from discriminating against any provider located within the geographic coverage area of a health benefit plan who is willing to meet the terms and conditions for participation in the health benefit plan.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Social Services
Missouri Department of Transportation
Department of Public Safety -
 Director's Office
 Missouri State Highway Patrol
Missouri Consolidated Health Care Plan
Department of Insurance
Missouri Department of Conservation



Mickey Wilson, CPA
Director
March 8, 2005